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RUEHEG/AMEMBASSY CAIRO 1055
RUEHLO/AMEMBASSY LONDON 1809
RUEHNC/AMEMBASSY NOUAKCHOTT 6462
RUEHFR/AMEMBASSY PARIS 2811
RUEHRB/AMEMBASSY RABAT 2443
RUEHTRO/AMEMBASSY TRIPOLI
RUEHTU/AMEMBASSY TUNIS 7298
RUEHCL/AMCONSUL CASABLANCA 3494
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C O N F I D E N T I A L SECTION 01 OF 02 ALGIERS 000825

SIPDIS

E.O. 12958: DECL: 07/22/2018

TAGS: [EPET](#) [ETRD](#) [ECON](#) [AG](#)

SUBJECT: ALGERIA ANNOUNCES NEW OIL AND GAS EXPLORATION ROUND

REF: A. 2006 ALGIERS 1723

[1](#)B. 2007 ALGIERS 708

[1](#)C. ALGIERS 262

[1](#)D. ALGIERS 626

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Classified By: CDA, a.i. Thomas F. Daughton; reasons 1.4 (b, d, e).

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[1](#)1. (SBU) SUMMARY: Algeria announced its long-awaited oil and gas licensing round by inviting pre-qualified companies to an informational session in late July. The list of pre-qualified companies has not been made public, but Energy Minister Khelil told us in May that almost all companies that had previously declared their interest would be pre-qualified. Sixteen zones containing 45 blocks have been identified, and data rooms will open in August. We expect that all major IOCs have been pre-qualified, and interest remains high in this bid round. However, some IOCs express concern that having too many pre-qualified bidders will result in smaller, untested companies offering financial packages that the Algerians would find irresistible even if questionable. It is also unclear how the Algerians will implement their publicly stated goal to seek asset swaps and technology transfers as part of the offers. The published schedule indicates that this bid round will conclude with contract signings on December 17, but the opening session has already been delayed by several days. End Summary.

TIMETABLE

[1](#)2. (U) On July 13 the energy ministry announced the timetable for Algeria's seventh hydrocarbons exploration and production licensing round, anticipated since early 2006 (refs A, B and C). The Algerian National Agency for Hydrocarbon Resources Valorization (ALNAFT) published a map of 16 zones containing 45 blocks in the southeast and south-central regions of Algeria that the agency touts as "presenting a high potential in petroleum resources." Eight zones are already being operated by the state-owned oil company Sonatrach and would be offered as partial concessions, although under the 2006 amendments to the Algerian hydrocarbons law, Sonatrach now retains a minimum 51 percent share in all oil and gas contracts. Sonatrach ALNAFT also published a timetable for

events associated with this bid round:

- July 23: general presentation to "interested companies;"
- August 2-13 and September 1 to October 15: data rooms open;
- September 15 to October 24: clarification meetings to discuss the contract terms of each block;
- October 24: deadline for written offers that would modify the contract terms;
- November 12: ALNAFT begins notifying companies if their modified contract terms are accepted;
- December 3, 10:00: deadline for submitting offers;
- December 3, 12:00: public opening of offers;
- December 17, 11:00: contract signing.

BUT WHO'S INVITED?

13. (C) The ALNAFT announcement did not identify the companies that were pre-qualified to bid in this round, but executives with both Anadarko and ConocoPhillips told us that their companies received emails on or about July 13 notifying them that they had pre-qualified and could pick up documentation at the Ministry of Energy and Mines. The country manager for ConocoPhillips Algeria told us that companies were invited in January 2008 to express interest in future exploration and production projects in Algeria, and to provide technical specifications to that effect. Once pre-qualified, a company would be able to bid on any leases offered during a three-year period. Energy Minister and OPEC President Chakib Khelil told us on May 28 (ref D) that 65 companies had already been pre-qualified and he expected that most of the remaining 15 or so who expressed interest would also be pre-qualified.

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14. (C) This was unwelcome news to ConocoPhillips executives who met the Ambassador on June 9. They told us that if too many bidders were pre-qualified, the chances increased that a lesser-known oil company with questionable exploitation capacity will win a bid on a prime block by offering the Algerians a package that appeared too good to refuse but that the company would ultimately not be able to honor. The executives said that the company would seriously consider this factor before expending resources on mounting bids in Algeria. ConocoPhillips' country manager told us on July 20 that the company could easily spend \$300,000 just on travel costs associated with bringing teams of engineers and project managers to Algiers to visit the data rooms. He added that even if the eight zones already under development by Sonatrach were reporting good results, site visits to the desert would likely still be necessary to evaluate the state of equipment and status of exploration, driving up the cost of bidding further. He hoped the introductory presentation would be open only to representatives of pre-qualified companies, which would provide him the first chance to size up his competition.

SOME OF THIS FOR SOME OF THAT

15. (C) ConocoPhillips' country manager noted that it was still unclear how the Algerians would control access to the data rooms, and if they would use data access fees or signing premiums as means of winnowing weak players. But more importantly, he said, he still does not know how Algeria will incorporate asset swaps as part of the bid offers. Energy Minister Khelil has long stated both publicly and privately that Algeria intends to ask companies for access to new technologies or to foreign assets as part of their bids on exploration and production blocks (ref B). Executives with BP, ConocoPhillips, Chevron and Hess have told us that, while asset swaps are no longer uncommon in the industry, it is unusual to make them a part of a competitive bid round because it is nearly impossible accurately to compare the

values of competing bids that include both cash and a percentage interest in a foreign oil field or a downstream enterprise.

¶6. (C) ConocoPhillips Algeria's president, who is based in Houston, told us in June that in addition to the number and quality of competitors, his company's calculation in bidding on future projects in Algeria would be based on two other key factors: the quality of the blocks offered, and the company's assessment of long-term political stability here. He said the "quality of acreage is important," because even with high worldwide oil prices, the cost of development has doubled in recent years. Algeria's recent development record has been disappointing, he noted, adding that "the best they could offer anyone were poorly structured comprehensive gas projects." He also observed that the terms offered by the Algerians in recent times have become increasingly unfavorable to IOCs.

COMMENT: DEVIL'S IN THE DETAILS

¶7. (C) It appears that all of the best-known IOCs will have pre-qualified for Algeria's newest oil and gas lease round, and most have told us over recent months that they look forward to bidding as long as the blocks offered appear to hold the potential touted by the energy ministry. But as ConocoPhillips' country manager told us this week, it will all boil down to what is in the data rooms in terms of the soil characteristics of the various blocks, how the Algerians structure the bids among the sixteen zones and 45 blocks, and what terms and conditions the Algerians seek. It is also still unknown if signing premiums will be sought or offered in this bid round. The specific timetable provided by ALNAFT is encouraging, but already the opening session has been delayed until at least July 26.

DAUGHTON